

## Chapter – 19

### Professional Ethics and Liabilities of Auditors

1. AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits, but the same clients had some other firms as their tax auditors. In the current year (FY 2023-24), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the number of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits up to the maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed. You are requested to advise the firm in this matter. [RTP-May, 19]

- (a) There is no limit on number of tax audits in case of LLP.
- (b) All the partners of the firm can collectively sign 450 tax audit reports.
- (c) All the partners of the firm can collectively sign 600 tax audit reports.
- (d) All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can [individually sign maximum 60 tax audit reports.

2. CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA Ram. He approached CA Ram to take guidance on some topics of financial management subject related to his course. CA Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 3 days in a week and for 2 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching in order to be able to undertake hours devoted to such activities taken together should attest functions. [MTP-Oct. 19]

- (a) not exceed 25 hours a week.
- (b) not exceed 21 hours a week.
- (c) not exceed 25 hours a month.
- (d) not exceed 21 hours a month.

3. Rajeev Ltd. is a listed company having business of production of motion pictures. For the year ended 31 March 2024, the company wanted to appoint Tax Auditor. For the purpose, somebody who is familiar with the business of the company/industry was to be preferred for appointment i.e. who would have worked with the company in the past to avoid efforts/duplication in terms of providing the information to get the Tax Audit completed. The company had following options for the same. Select the correct one.

- (a) Internal auditors can be appointed for this work.
- (b) Both statutory and internal auditors can be jointly appointed for this work.
- (c) Internal auditors along with the tax consultations of the company can be appointed for this work.
- (d) Statutory auditors can be appointed for this work.

4. Nakul Sehdev & Co LLP is a firm of Chartered Accountants. The firm has 12 Partners. The firm has a good portfolio of clients for statutory audits but the same clients had some other firms as their tax auditors. In the

current year (Financial Year 2023-24), many existing clients for whom Nakul Sehdev & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the number of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits upto a maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed. You are requested to advise the firm in this matter. [MTP-May 20]

- (a) There is no limit on number of tax audits in case of LLP.
- (b) All the partners of the firm can collectively sign 540 tax audit reports.
- (c) All the partners of the firm can collectively sign 720 tax audit reports.
- (d) All the partners of the firm can collectively sign 540 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.

5. Letter head of CA. Pankaj, a Practicing Chartered Accountant, is reproduced below:

PANAJ DE PANKAJ ACS, LLB, FCA  
Chartered Accountant & Member of Parliament

As per Chartered Accountants Act, 1949 you are required to choose the appropriate answer: [MTP-Oct. 20]

- (a) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he shall not use the designation 'Member of the Parliament' in addition to that of a 'Chartered Accountant'.
- (b) He shall not use the designation 'LLB' in addition to that of a 'Chartered Accountant' as he has not enrolled as an Advocate as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.
- (c) He can use designations such as Member of Parliament, Member of the Legislative Assembly in addition to that of a 'Chartered Accountant' as these are specifically allowed as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.
- (d) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he can designate himself as 'Chartered Accountant and Company Secretary' as he is a member of the Institute of Company Secretaries of India also.

6. CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2023 and on 4th October 2023, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him? [MTP-March 21]

- (a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine upto ₹ 5, 00,000.
- (b) Yes, it is a misconduct under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto ₹ 1, 00,000.
- (c) Yes, it is a misconduct under clause 7 of Part 1 of First Schedule and he can be reprimanded, his name Professional Ethics and Liabilities of Auditors can be removed from the register of members for 3 months and fine upto 1, 00,000.
- (d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine upto 5, 00,000.

7. KB Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2023-24. It consists of two partners CA K & CA B. CA K is brother of the father of the finance director of the company. CA B is an old friend of the finance director of the company. What kind of ethical threat is associated with appointment of KB Associates as an auditor of ABC LTD.? [MTP-April 21]

- (a) Self Interest Threat.
- (b) Advocacy Threat.

- (c) Familiarity Threat.
- (d) Self-Review Threat.

**8.** Mr. R, (friend of Mr. P) a CA in practice invited Mr. P to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s RP & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. R informed that there is no such Regulation regarding the firm's name. Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and Regulation? [MTP-April 21]

- (a) RP and Co.
- (b) RP & Associates.
- (c) RP and Networks.
- (d) RP & Affiliates.

**9.** Mr. Chitragupta Bakutra, a Chartered Accountant is a sole proprietor of Bakutra & Co. which has been appointed as a statutory auditor of Kraftic Ltd. from F.Y. 2023-24, for a term of 5 years. Mr. Chitragupta is a director simplicitor of Kalavitur Ltd. which acquired 55% shares of Kalavitur Ltd., for the first time, on 25th May, 2023. Mr. Chitragupta's term as a director of Kalavitur Ltd. got expired on 31st March, 2024 and he was not re-appointed. Kalavitur Ltd. made a proposal to Mr. Chitragupta for appointing Bakutra & Co. as its statutory auditor from F.Y. 2023-24, for a term of 5 years, which was accepted by Mr. Chitragupta. Is there any violation of the Code of Ethics by Mr. Chitragupta Bakutra? [MTP-Nov. 21]

- (a) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor and also he cannot accept appointment of auditor of a Kalavitur Ltd. without finishing of the cooling period for the same.
- (b) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor. However, by accepting appointment as an auditor of Kalavitur Ltd. without finishing of the cooling period for the same, he has violated the Code of Ethics.
- (c) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor. However, there is no bar in becoming an auditor of a company of which a person has been its director.
- (d) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor and also there is no requirement of following the cooling period by a director simplicitor who on expiry of its term, wants to become auditor of such company.

**10.** Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMY LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not positive evidence of delivery and violates the provisions of Code of Ethics if the firm accepts the audit assignment.

With respect to the dilemma being faced by Mr. B, partner of the firm regarding acknowledgment of the communication from the retiring auditor's vide their official email is not positive evidence of delivery? [RTP-Nov. 22]

- (a) The dilemma of Mr. B is correct as it is not positive evidence of delivery.
- (b) The dilemma of Mr. B is not correct as it is positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the Code of Ethics.
- (c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.
- (d) The dilemma of Mr. B is correct as the email address of the outgoing auditor from which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.

**11.** Mr. R, (friend of Mr. P) a CA in practice invited Mr. P to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s RP & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. R informed that there is no such Regulation regarding the firm's name. Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountants Act and Regulation? [MTP SEPTEMBER 2023]

- (a) RP and Co.
- (b) RP & Associates.
- (c) RP and Networks.
- (d) RP & Affiliates.

**12.** CA Mridul has been appointed as statutory auditor of PQT Limited, a reputed listed company engaged in the manufacturing of electronic products, in accordance with provisions of the Companies Act, 2013. Currently, he is also actively involved in advising the government in favour of proposed legislation likely to be introduced in one of the coming sessions of Parliament to attract investments and cutting-edge technology in the electronic products sector on behalf of his client. He has participated in TV programmes on the matter, written articles in business papers on the subject, and given key suggestions to the government in this regard. In all public appearances and statements, he has openly stated the fact of being associated with PQT Limited in the capacity of auditor. Which of the following statements is likely to be correct in this regard? [MTP OCTOBER 2023]

- (a) The described situation can involve self-interest threats to the independence of the auditor.
- (b) The described situation can involve familiarity threats to the independence of the auditor.
- (c) The described situation can involve advocacy threats to the independence of the auditor.
- (d) The described situation can involve self-review threats to the independence of the auditor.

**13.** Mr. L, (friend of Mr. M) a CA in practice invited Mr. M to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s LM & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. L informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of the Chartered Accountant Act, 1949 and Regulation was accepted by all the four partners.

Which among the name shall be suitable to the newly started 'Network Firm'? [MTP APRIL 2024]

- (a) LM and Co.
- (b) LM & Associates.
- (c) LM & Affiliates.
- (d) LM and Networks.